

## **2017 TUVALU NATIONAL BUDGET SPEECH**

**By the Honourable Maatia Toafa  
Deputy Prime Minister and Minister for Finance and Economic Development  
30 November 2016**

### **SALUTATIONS**

1. Honourable Speaker to the House of Parliament and your good wife, Honourable Prime Minister and your good wife, Honourable Members of Parliament and your good spouses, President of the Ekalesia Kelisiano Tuvalu, Ambassador of the Republic of China to Tuvalu, Pule o Fenua, Tupu, Island Chiefs, Pule o Kaupule, Acting Secretary to Government, Permanent Secretaries and senior government Officials, General Managers of Public Corporations, representatives of the private sector and NGOs, Distinguished Guests, Fellow Tuvaluans.

### **INTRODUCTION**

2. In accordance with Section 165 of the Tuvalu Constitution, I am honoured to present to Parliament the 2017 National Budget.
3. Mr. Speaker, almost four decades ago our forefathers decided to separate us from Kiribati and form a new independent nation. They made that decision with great uncertainty because of our narrow resource base and limited opportunities for development. The bold decision was made nonetheless because of the hope for better standard of living and improved opportunities for future generations of Tuvalu. Today, Tuvalu has one of the highest school enrolment ratios in the world. Tuvalu also continued to make immense improvements in areas of health, environment, infrastructure and access to electricity. Our economy continues to perform better, providing employment opportunities for all. Employment has increased from 15.9 percent in 1979 to 40 percent in 2012.
4. Since independence, the National Budget has been the key policy document that financed our aspirations and developments and ultimately brought us to where we are today. The 2017 National Budget is a result of collective efforts from all Government agencies. Economists provided advice on sustainable levels of expenditures. Teachers, doctors, lawyers, engineers, environment specialists, fisheries and climate experts among others, were consulted to obtain their views on how best the Government can provide services and serve the people at the highest standard within available financial resources.
5. Mr. Speaker, what we offer in the 2017 National Budget are sets of concrete, practical proposals that address key challenges we face today, particularly in areas of health, education, transportation and communication, environment, infrastructures, island development and climate change. This budget offers opportunities for all while at the same time continuing to improve our Nation's long-run fiscal position. Mr Speaker, I have the pleasure in announcing that:
  - a. For 2017, total domestic revenue is estimated at \$51.4 million. This includes a \$6.7 million distribution from the TTF, \$7.4 million from taxation, \$24.9 million from fisheries licenses and \$7.0 million from dotTV. In addition, development partners will contribute \$17.1 million in general budget support.

- b. The 2017 Budget represents a significant investment in the future of Tuvalu and its people. Expenditure will be targeted at the highest priority areas consistent with the Te Kakeega III particularly in health and education, infrastructure, transport and communication, climate change and support to islands development.
  - c. Total expenditure for 2017 is projected at \$70.8 million. Of this, \$48.6 million will finance the recurrent budget (which also includes the \$902,041 for CSOs), \$6.2 million is earmarked for Special Development Expenditures, \$8.9 million for Infrastructure Projects, and \$5.0 million and \$2.0 million contributions to the Tuvalu Trust Fund and Tuvalu Survival Fund respectively. A deficit of \$2.2 million will be financed through a sustainable drawdown from the CIF.
6. Mr. Speaker, before going into the details of the Budget, allow me to outline some background information on the major economic and social developments in Tuvalu against which this budget was prepared.

## **BUDGET SETTING**

7. Mr. Speaker, funding decisions for the 2017 Budget have been guided by the Te Kakeega III (TKIII) and the Medium Term Fiscal Framework (MTFF). The TKIII is the blueprint providing development direction for Tuvalu up to 2020. The MTFF provides a forecast of expected revenue and recurrent expenditure commitments over the period 2017-2019. In developing the projections, indexation is applied to the 2017 recurrent budget to reflect the effect of inflation, economic growth and exchange rate fluctuations on current government expenditure. The projections provide an indication of the sustainability of Government's fiscal policy and the effect of new spending decisions on the Government's medium term financial position. Explanation have been provided for movements between budget years.
8. Mr. Speaker, I am pleased to confirm that an amount of \$6.7 million is available for distribution and out of \$6.7 million, \$5 million will be reinvested into the Trust Fund. The reinvestment is in line with the Government's target of reaching a maintained value of \$200 million in the Trust Fund by the year 2020. The remaining \$1.7 million will be drawn down and will go toward meeting the Government's commitment of adding another \$2 million to the Tuvalu Survival Fund. As at 30 September 2016 the market value of the TTF was \$161.5 million with a maintained value of \$154.8 million.
9. Additionally, the Consolidated Investment Fund (CIF) is projected to have a balance of \$42.3 million at the end of 2017 and \$2,274,957 is to be withdrawn from the CIF to fund 2017 Budget deficit. Under current fiscal policy, a minimum balance of 16% of the TTF is required to be maintained in the CIF. This balance provides a buffer to finance budget expenditure in future years, should the need arise. The current balance of the fund exceeds the minimum balance requirement of \$26.4 million.
10. Fishing licenses provide 46 percent of the budget revenue for 2017. The revenue source has historically been very volatile, impacted by both US exchange rate movements and uncertainty over the timing of receipt of revenues. The negative growth in this revenue source indicates that

revenue from domestic sources is growing at a lesser rate than that of GDP. In addition, we are expecting that the stronger Australian dollar will decrease revenue receipts from US denominated revenue sources (fisheries and dotTV). The Government is closely monitoring the trend in these revenue sources.

## **BUDGET HIGHLIGHTS**

11. Mr. Speaker and Honourable Members, this Budget ensures a clear focus on priorities and strives for efficiencies to ensure continued improvements and results and that the quality of life in Tuvalu continues to be raised. This Budget is about supporting policies to ensure that we deliver opportunities for all and achieve a healthy, educated, secured, peaceful and prosperous Tuvalu.

### **Revenue**

12. Mr. Speaker, expanding Tuvalu's narrow revenue base is an ongoing priority. In 2017, domestic revenues will be \$3.2 million (6.0%) lower than the 2016 Budget. In addition to domestic revenues, assistance of \$17.1 million will be received from our development partners for general budget support. Revenues are projected to decrease slightly over the forward estimates, driven mainly by fluctuations in exchange rates, which will affect fishing licenses and dotTV revenues and conservatism in the projections of future distributions from the Tuvalu Trust Fund.
13. Taxation revenue is expected to increase by 1.0% to \$7.4 million in 2017, after which is expected to remain steady over the forward estimates. The main driver of this increase is higher collections of import duties and TCT as materials and supplies are brought into the country for a number of large infrastructure project that commence in 2017 including improvement to boat harbours in the outer islands.
14. Government charges are expected to decrease by \$5.1 million in 2017 and be maintained at this level over the forward estimates. Revenues from fishing licenses are forecasted to reach \$24.9 million in 2017, \$6.5 million lower than the 2016 Budget. This decrease results from the effects of La Nina which will drive fish away from Tuvalu waters to the west of the Pacific Ocean.
15. In addition, an increase of \$713,254 in receipts from dotTV is expected to generate \$7.0 million in 2017. Marine charges in 2017 is likely to increase by \$743,745 due to increase in materials and supplies for outer islands' infrastructure projects.
16. Investment revenue is expected to increase by \$1.9 million in 2017. The growth in 2017 was due to strong investment returns in the Tuvalu Trust Fund, which has seen the market value increase sufficiently to enable Government to receive a distribution of \$6.7 million from the Fund in 2017. This marks the fourth consecutive year that the fund has exceeded the maintained value.
17. General budget support from development partners play an important role in assisting Tuvalu meet its national development priorities. The Government receives funding through both cash and non-cash grants.

### **Expenditure**

18. Mr. Speaker, I would now like to move to the expenditure side of the Budget. Total expenditure for 2017 is estimated at \$70.8 million. This includes \$6.2 million in Special Development expenditures, \$8.9 million for infrastructure projects, \$5.0 million contribution to the Tuvalu Trust Fund, \$2.0 million to the Tuvalu Survival Fund, \$772,190 in statutory expenditure and \$48.6 million in recurrent expenditure. The 2017 Budget represents a significant investment in the future of Tuvalu and its citizens.
19. During 2016, the Government implemented upgraded systems in the areas of financial management, procurement, fisheries revenue management and budgeting. Future public financial management reforms in 2017 will look to build on efficiency improvements to move towards better results for the people of Tuvalu.
20. Mr. Speaker, the impacts of Tropical Cyclone Pam on the islands has reminded Tuvalu of its vulnerability, and the damages proved to us that these were no longer natural events, climate change is already happening, as predicted by world scientists. Thus, Tuvalu through its efforts to build resilience of the nation is also pleading for urgent actions to be taken by the global community to address climate change.
21. While details of all new spending items are contained in the 2017 National Budget, Mr Speaker, I would like to highlight the following important areas of domestic Government spending in 2017 which are directed at key economic reforms and priorities under the Policy Reform Matrix Phase IV and TKIII.

#### ***Infrastructure and Maintenance***

22. Construction of new classrooms which did not commence in 2016 will begin in 2017. These new classrooms are for Nukufetau, Nanumea and Funafuti. Government will provide funding of \$1.1 million for classrooms in Nukufetau and \$400,000 for Nanumea, while new classrooms at Nauti Primary School will be funded by Australia at \$1.8 million.
23. Investment in a housing project for the Pacific Islands Forum meeting which were not constructed in 2016 will be constructed in 2017 with a total cost of \$1.5 million. Also not being able to build in 2016 is the Court house, which will be constructed in 2017 at a total cost of \$3.0 million. Furthermore, a total amount of \$300,000 is allocated for the Partnership House (Old Customs Office) renovation to provide office spaces for project officers.
24. Mr. Speaker, the 2017 Budget has allocated \$500,000 for a new health clinic for Nanumaga. Currently, Nanumaga does not provide medical services from its medical clinic as a result of damages occurred during cyclone Pam. \$600,000 is allocated for the renovations of the Governor General's and Prime Minister's residences, and design costs for a new library and archive building, and mini-hospitals in Nanumea and Vaitupu, at \$300,000 and \$500,000 respectively.
25. Mr Speaker, for 2017, Government will continue to provide investment of \$500,000 for deferred maintenance of existing government assets. The fund is jointly managed by the Ministries of Finance and Economic Development and Public Works Department. Funding assistance from the Asian Development Bank has been secured to enable a stock take of all assets and the preparation of a long term maintenance schedule in 2017.

### ***Education***

26. Mr. Speaker, members of Parliament, I am pleased to announce that the amount allocated for government scholarships will increase by 10 percent from \$4.5 million in 2016 to \$4.9 million in 2017. The additional expenditure reflects government's commitment to providing greater educational opportunities through an increase in the number of awards offered in 2015. Government will also increase funding for Scholarship Education Loan Fund (SELF) from \$758,624 in 2016 to \$820,000 in 2017.
27. Government has also allocated \$46,714 for the development of Early Childhood Care and Education (ECCE) Curriculum, \$24,300 for curricular materials, and \$20,431 for a resource person to support ECCE curriculum. Funding of \$50,581 will be provided for the implementation of an E-learning system for school students across Tuvalu and \$67,500 for curriculum specialists in 2017. Furthermore, mainstreaming of climate change in the school curriculum throughout Tuvalu will be delivered at a cost of \$52,480.

### ***Health***

28. Mr. Speaker, there is an allocation of \$174,420 for ten new doctors at Princess Margaret Hospital (PMH) to improve access to medical care and reduce the pressure on the Tuvalu Medical Treatment Scheme (TMTS). Additional funding has also been allocated for salaries of 5 health specialist at a total cost of \$144,750. Funding levels for the TMTS will be maintained at the current level of \$3.7 million.
29. In addition, provisions for pharmaceutical supplies stands at \$231,805, consumable medical supplies at \$27,724, laboratory supplies at \$20,000, biomedical supplies at \$11,403, and other medical supplies at \$65,387 all increased compared to 2016 levels. These increases will enable better health services to be provided and received by Tuvalu people in the country, rather than referring patients overseas under the TMTS.

### ***Kaupules and Islands Development***

30. Mr. Speaker, Islands Projects grants for 2017 will be maintained at the current level of \$2.8 million, while an additional \$111,797 will be provided for Kaupule members' salaries. Provision of \$52,000 is provided for the Island Leaders' Summit and funding of \$79,610 is allocated for the Waste Operation Survey and Regulation. The amount of \$28,941 is provided for the fencing of the outer islands waste dump sites.
31. The Government will also contribute \$200,000 for the Outer Islands Maritime Infrastructure Project which is funded by the Asian Development Bank with the aim to improve safety and handling of cargo in the outer islands. In addition, United Nation Capital Development Fund (UNCDF) will provide \$160,000 for the Local Climate Adaptive Living Facility (LoCAL) to integrate climate change adaption into local government planning and budgeting systems.

### ***Social Welfare and Community Development***

32. Mr. Speaker, allocations for the Incapacity Support Scheme for the disabled will increase by \$13,360 to \$84,000. Senior Citizens Scheme will remain at 2016 level to provide a monthly support payment of \$70 to those most vulnerable in our community at a total cost of \$301,506. The amount

of \$25,000 is allocated for each non-profit organization in recognition of the benefits they provide to the community.

### *Climate Change*

33. Mr. Speaker, the Government is committed to address the effects of climate change and \$2.0m will be provided to grow the value of the Tuvalu Survival Fund. In addition, 2 new positions have been created within the National Advisory Committee for Climate Change to manage projects under the Global Climate Fund, at a total cost of \$28,374. In addition, \$35,000 is allocated for the UN Climate Change Ambassador's travel expenses.

### *Foreign Affairs*

34. Mr Speaker and Honourable Members of Parliament, total allocations in 2017 for diplomatic missions have increase from \$2.0 million to \$2.2 million to meet the increase in operational costs. Furthermore, \$40,000 has been allocated for new posting travel expenses for our diplomatic missions' representatives and \$15,000 for a Protocol Manual.

### *Community Service Obligations (CSOs)*

35. Mr. Speaker, the Government will continue to provide support to Public Enterprises (PEs) to assist with services to the community. Government's support to PEs will increase to \$722,041 in 2017. The CSOs is payable to the following PEs: \$179,421 to the Tuvalu Electricity Corporation, \$89,346 to the Tuvalu Post Limited; \$76,138 to the National Bank of Tuvalu; \$38,712 to the Development Bank of Tuvalu, \$338,424 to the Tuvalu Telecommunication Corporation, and \$180,000 to the Tuvalu Media Corporation.

### *Overseas Contributions and Other Expenses*

36. Mr. Speaker, Overseas Contributions will decrease by \$132,000 to \$1.0 million in 2017. The decrease reflects movements in the membership fees for the relevant organizations.
37. Other expenditure which includes Other Expenses, Capital, Loan Repayments and Interest Expenses will increase by \$51,208 to \$1.2 million in 2017. The major movements in these items include foreign exchange movements in loan repayments and interest expenses.

### **DEVELOPMENT PARTNERS SUPPORT**

38. Mr. Speaker, and Honourable Members, we are truly grateful for the ongoing support from our development partners, whom have played important roles in helping Tuvalu achieved and realized its development objectives. I would like to acknowledge the support of Tuvalu's major development partners in our reform endeavours and welcome their continued support.
39. In 2017, general budget support from the Republic of China (Taiwan) will continue with \$8.3 million. The Government is also expected to receive budget supports of USD\$3.3 million from the World Bank, USD\$2.0 million from the Asian Development Bank, \$1.5 million from Australia, and \$500,000 from New Zealand. This assistance will be used as supplementation for Government

budget priorities as part of the National Budget process. The funding is deposited to the consolidate fund and is included in the annual appropriation bill that is submitted to Parliament for approval.

### **CONCLUDING REMARKS**

40. Mr. Speaker, Honourable Members of Parliament, the 2017 Budget will provide opportunities for all citizens of Tuvalu. The hope for better standard of living and improved opportunities is what brought us to form this nation nearly four decades ago and the defining objective of our generation is to fulfil that dream. This budget continues the Government's focus on responsible and fiscally sustainable budgeting. Substantial investment has been targeted towards the health and education sectors and to benefit those within our community who are most vulnerable. The Budget continues to provide investments in island development in order to ensure that the nation's wealth is shared amongst all citizens. Importantly, there is strong commitment to achieve our vision in the Te Kakeega III that Tuvalu foresees a more protected, secure and prosperous Tuvalu.
41. The 2017 Budget provides a roadmap to empower our people for inclusive and sustainable growth. The challenge is now on effective implementation of this Budget. In this regard I urge all Government Ministries to ensure an effective and efficient implementation of the new policies supported in this Budget. I strongly encourage all Public Enterprises and Island Kaupule leaders to provide strong, honest and prudent leadership to support the Government endeavours to develop our small nation Tuvalu.
42. Finally, I would like to take this opportunity to express my appreciation to everyone involved in the preparation of the 2017 National Budget, particularly to my fellow Cabinet colleagues, Development Coordinating Committee, Ministries, Permanent Secretaries and staff of the Planning, Budget and Aid Coordination Department. All these efforts have contributed to what I believe is another excellent achievement. I express my sincere gratitude to you all.
43. Mr. Speaker, I commend the 2017 Budget to the Parliament.
44. Fakafetai lahi,
45. Tuvalu mo te Atua.